

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

ADOBE SYSTEMS INCORPORATED,

Plaintiff,

v.

ANTHONY KORNRUMPF, a/k/a TONY
KORNRUMPF; and HOOPS ENTERPRISE, LLC,

Defendants.

HOOPS ENTERPRISE, LLC,

Counter-Claimant,

v.

ADOBE SYSTEMS INCORPORATED,

Counter-Defendant,

and

SOFTWARE AND INFORMATION INDUSTRY
ASSOCIATION,

Third-Party Defendant.

No. C 10-02769 CW

ORDER GRANTING
ADOBE SYSTEMS
INCORPORATED AND
SOFTWARE &
INFORMATION
INDUSTRY
ASSOCIATION'S
MOTION TO DISMISS
HOOPS ENTERPRISE,
LLC'S CLAIMS
(Docket No. 34)

Plaintiff and Counter-Defendant Adobe Systems Incorporated and
Third-Party Defendant Software and Information Industry Association
(SIIA) move to dismiss the claims of Defendant and Counter-Claimant
Hoops Enterprise, LLC. Hoops and Defendant Anthony Kornrumpf
oppose the motion. The motion was taken under submission on the
papers. Having considered the papers submitted by the parties, the
Court GRANTS Adobe and SIIA's motion.

BACKGROUND

Adobe, a California corporation, initiated this copyright and trademark infringement lawsuit on June 24, 2010. It alleges that Defendants are Tennessee residents and that they use, among other services, the Internet auction site eBay to offer for sale and sell Adobe software.¹ Adobe avers that it has not licensed Defendants to make or distribute copies of its software. Adobe also pleads that Defendants use, without a license, images similar or identical to Adobe trademarks as part of their online business. Adobe seeks relief pursuant to the Copyright Act, 17 U.S.C. §§ 101, et seq., and the Lanham Act, 15 U.S.C. §§ 1501, et seq.

On September 3, 2010, Defendants filed an amended answer, which includes a defense of copyright misuse.² Am. Answer ¶ 23. In addition, Hoops filed counterclaims against Adobe and claims against third-party Defendant SIIA³ for copyright misuse and a violation of California's Unfair Competition Law (UCL), Cal. Bus. & Prof. Code §§ 17200, et seq. Hoops alleges that SIIA is a trade association for the software industry which enforces copyrights on behalf of its members, such as Adobe. Hoops avers that Adobe and

¹ Adobe's original claimed named only Kornrumpf as a Defendant. However, in November, 2010, Adobe filed an amended complaint naming Hoops as a Defendant, along with a stipulation deeming the amended complaint to be filed on June 24, 2010. (Docket No. 33.)

² In the stipulation noted above, the parties deemed Hoops and Kornrumpf's amended answer to be filed on September 3, 2010. (Docket No. 33.)

³ For brevity, the Court hereinafter collectively refers to Hoops's counterclaims against Adobe and claims against third-party Defendant SIIA as "claims."

1 SIIA misuse Adobe's copyrights by attempting to extend their
2 protections beyond those granted under the Copyright Act. In
3 particular, Hoops alleges that Adobe's and SIIA's conduct
4 impermissibly expands Adobe's copyrights beyond the limits imposed
5 by the first sale doctrine, as codified in 17 U.S.C. § 109. This
6 conduct includes suing "small, independent software re-sellers such
7 as Hoops, who purchase and re-sell Adobe software products." Hoops
8 Countercl. ¶ 12. Hoops further avers that Adobe's and SIIA's
9 conduct constitutes unfair competition and is intended to eliminate
10 the "secondary sales market" in which Hoops and other software re-
11 sellers operate. Hoops Countercl. ¶¶ 15-16. Hoops seeks
12 compensatory and declaratory relief based on its claims.

13 LEGAL STANDARD

14 A complaint must contain a "short and plain statement of the
15 claim showing that the pleader is entitled to relief." Fed. R.
16 Civ. P. 8(a). Dismissal under Rule 12(b)(6) for failure to state a
17 claim is appropriate only when the complaint does not give the
18 defendant fair notice of a legally cognizable claim and the grounds
19 on which it rests. Bell Atl. Corp. v. Twombly, 550 U.S. 544, 555
20 (2007). In considering whether the complaint is sufficient to
21 state a claim, the court will take all material allegations as true
22 and construe them in the light most favorable to the plaintiff. NL
23 Indus., Inc. v. Kaplan, 792 F.2d 896, 898 (9th Cir. 1986).
24 However, this principle is inapplicable to legal conclusions;
25 "threadbare recitals of the elements of a cause of action,
26 supported by mere conclusory statements," are not taken as true.
27 Ashcroft v. Iqbal, ___ U.S. ___, 129 S. Ct. 1937, 1949-50 (2009)

(citing Twombly, 550 U.S. at 555).

When granting a motion to dismiss, the court is generally required to grant the plaintiff leave to amend, even if no request to amend the pleading was made, unless amendment would be futile. Cook, Perkiss & Liehe, Inc. v. N. Cal. Collection Serv. Inc., 911 F.2d 242, 246-47 (9th Cir. 1990). In determining whether amendment would be futile, the court examines whether the complaint could be amended to cure the defect requiring dismissal "without contradicting any of the allegations of [the] original complaint." Reddy v. Litton Indus., Inc., 912 F.2d 291, 296 (9th Cir. 1990). Leave to amend should be liberally granted, but an amended complaint cannot allege facts inconsistent with the challenged pleading. Id. at 296-97.

DISCUSSION

I. Copyright Misuse Claims

The equitable doctrine of copyright misuse "forbids a copyright holder from 'secur[ing] an exclusive right or limited monopoly not granted by the Copyright Office.'" A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1026 (9th Cir. 2001) (quoting Lasercomb Am., Inc. v. Reynolds, 911 F.2d 970, 977-79 (4th Cir. 1990)). The doctrine "prevents copyright holders from leveraging their limited monopoly to allow them control of areas outside the monopoly." A&M Records, 239 F.3d at 1026. Copyright misuse "does not invalidate a copyright, but precludes its enforcement during the period of misuse." Practice Mgmt. Info. Corp. v. Am. Med. Ass'n, 121 F.3d 516, 520 n.9 (9th Cir. 1997) (citation and internal quotation marks omitted).

1 Hoops's copyright misuse claims, premised on the theory that
2 Adobe and SIIA have attempted to control the distribution of
3 copyrighted Adobe software products beyond their first sale in
4 contravention of the first sale doctrine, suffer from numerous
5 defects.

6 A. Compensatory Damages and Declaratory Relief for Copyright
7 Misuse

8 Hoops does not identify any authority granting it a right of
9 action for damages arising from Adobe's and SIIA's alleged misuse
10 of Adobe's copyrights. Other district courts have concluded that
11 no legal authority supports an award of damages for copyright
12 misuse. See, e.g., Ticketmaster L.L.C. v. RMG Techs., Inc., 536 F.
13 Supp. 2d 1191, 1199 (C.D. Cal. 2008) (dismissing with prejudice
14 claim for damages for misuse of copyright, noting that it is "an
15 affirmative defense to a claim for copyright infringement"); Online
16 Policy Group v. Diebold, Inc., 337 F. Supp. 2d 1195, 1199 n.4 (N.D.
17 Cal. 2004) (finding no legal authority "that allows an affirmative
18 claim for damages for copyright misuse"). Because it cannot be
19 cured by amendment, the Court dismisses with prejudice Hoops's
20 request for damages for copyright misuse.

21 Nor does Hoops articulate any authority for its request for a
22 declaration of copyright misuse. Hoops did not cite any provision
23 of the Copyright Act affirmatively providing such relief. Thus,
24 the Court presumes Hoops seeks a declaration pursuant to the
25 Declaratory Judgment Act, 28 U.S.C. § 2201(a). If an actual case
26 or controversy exists, a court has discretion to assert
27 jurisdiction over a declaratory judgment claim. Gov't Employees

1 Ins. Co. v. Dizol, 133 F.3d 1220, 1222-23 (9th Cir. 1998). In
2 determining whether it should exercise its discretion, a court
3 weighs various factors, including whether the claim would generate
4 duplicative litigation. Id. at 1225.

5 Adobe argues that, in light of its copyright infringement
6 claim, Hoops's copyright misuse counterclaim for declaratory relief
7 is inappropriate. The Ninth Circuit has not opined directly on the
8 propriety of declaratory relief for copyright misuse in cases where
9 a copyright holder has asserted a claim of copyright infringement.⁴
10 It is true that the court has referred to copyright misuse as a
11 defense. See, e.g., Altera Corp. v. Clear Logic, Inc., 424 F.3d
12 1079, 1090 (9th Cir. 2005); A&M Records, Inc., 239 F.3d at 1026.
13 However, the court has never foreclosed asserting the doctrine
14 through a counterclaim for declaratory relief.

15 District courts within the circuit have reached disparate
16 conclusions. In Ticketmaster, the court dismissed with prejudice a
17 counterclaim for declaratory relief for copyright misuse, reasoning
18 that litigating a counterclaim and an affirmative defense of
19 copyright misuse would be duplicative. 536 F. Supp. 2d at 1199;
20 see also Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd., 269 F.
21 Supp. 2d 1213, 1225-27 (C.D. Cal. 2003). In contrast, the court in
22 Apple Inc. v. Psystar Corp. opined that a counterclaimant "may well
23 have a legitimate interest in establishing misuse independent of"

24
25 ⁴ However, courts have entertained declaratory relief claims
26 for copyright misuse in cases where a copyright holder has not
27 asserted claims of copyright infringement. See, e.g., Practice
28 Mgmt., 121 F.3d at 520-21; Open Source Yoga Unity v. Choudhury,
2005 WL 756558 (N.D. Cal.). Such cases are distinguishable
because, here, Adobe has sued for copyright infringement.

1 its need to defend an infringement claim "to clarify the risks it
2 confronts by marketing the products at issue . . . or others it may
3 wish to develop." 2009 WL 303046, at *2 (N.D. Cal.). Also, the
4 Apple court noted, "misuse would bar enforcement (for the period of
5 misuse) not only as to defendants who are actually a party to the
6 challenged license but also as to potential defendants not
7 themselves injured by the misuse who may have similar interests."
8 Id. The Apple court expressly disagreed with the holdings in
9 Ticketmaster and Metro-Goldwyn-Mayer. Id. at *3.

10 Although there may be circumstances that justify providing
11 declaratory relief on a counterclaim for copyright misuse, Hoops
12 has not presented them here. As explained below, Hoops's
13 allegations, even if true, do not establish that Adobe engaged in
14 copyright misuse.

15 With respect to SIIA, Hoops has not asserted a counterclaim,
16 but rather a claim against a third-party Defendant that does not
17 assert a copyright infringement claim in this action. However,
18 Hoops has not established that a declaration of copyright misuse
19 against SIIA would be appropriate. Hoops alleges only that SIIA is
20 an agent of Adobe; the association does not apparently own any of
21 the copyrights being asserted against Hoops. Because a declaration
22 of misuse could disable Adobe's copyrights for the period of
23 misuse, Adobe, not SIIA, appears to be the appropriate party
24 against which declaratory relief could be sought. Further, as is
25 the case with Adobe, Hoops's allegations do not suggest that SIIA
26 engaged in copyright misuse.

27 For these reasons and those below, Hoops's claims for
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1 copyright misuse, to the extent they rest on a request for
2 declaratory relief, are dismissed with leave to amend. Although
3 the Court doubts that Hoops can justify the exercise of the Court's
4 discretion to provide such relief, the Court cannot be certain that
5 it is futile. In any amended pleading, Hoops must also justify the
6 grounds for declaratory relief against SIIA.

7 B. First Sale Doctrine

8 A copyright holder has the exclusive right to "distribute
9 copies . . . of the copyrighted work to the public by sale or other
10 transfer of ownership, or by rental, lease, or lending." 17 U.S.C.
11 § 106(3). The first sale doctrine enables an "'owner of a
12 particular copy' of a copyrighted work to sell or dispose of his
13 copy without the copyright owner's authorization." Vernor v.
14 Autodesk, Inc., 621 F.3d 1102, 1107 (9th Cir. 2010) (quoting 17
15 U.S.C. § 109(a)). The doctrine "does not apply to a person who
16 possesses a copy of the copyrighted work without owning it, such as
17 a licensee." Vernor, 621 F.3d at 1107 (citing 17 U.S.C. § 109(d)).

18 "Notwithstanding its distinctive name, the doctrine applies
19 not only when a copy is first sold, but when a copy is given away
20 or title is otherwise transferred without the accouterments of a
21 sale." UMG Recordings v. Augusto, ___ F.3d ___, 2011 WL 9399, at
22 *3 (9th Cir.) (citations omitted). However, "not every transfer of
23 possession of a copy transfers title." Id. at *4. For instance,
24 in the context of computer software, "copyright owners may create
25 licensing arrangements so that users acquire only a license to use
26 the particular copy of software and do not acquire title that
27 permits further transfer or sale of that copy without the

1 permission of the copyright owner." Id.

2 In Vernor, a declaratory judgment action, the Ninth Circuit
3 addressed the resale of copyrighted software on eBay. 621 F.3d at
4 1103. There, Vernor sought a declaration that he did not infringe
5 the copyright of Autodesk, a software company. Id. Vernor had
6 purchased copies of Autodesk's software from Cardwell/Thomas &
7 Associates (CTA), one of Autodesk's direct customers, and then
8 attempted to resell them on eBay. Id. CTA had obtained the copies
9 under a software license agreement, which imposed significant
10 restrictions on their transfer and use. Id. at 1104. Based on
11 this agreement, the Ninth Circuit rejected Vernor's assertion of
12 the first sale doctrine, concluding that neither he nor CTA were
13 owners of the particular copies. Id. at 1111. The court reasoned
14 that CTA was only a licensee and that Autodesk retained title to
15 the software. Id.

16 Here, Hoops does not plead any facts to suggest that it owned
17 any of the particular copies of Adobe software that it resold or
18 that it obtained the copies from entities that had owned them. Nor
19 does Hoops allege that Adobe ever sold, gave away or transferred
20 title to the particular copies of the software at issue. Hoops
21 avers that it resold Adobe products it "purchased from third party
22 intermediary distributors," Hoops Countercl. ¶ 8, but offers no
23 facts regarding under what terms these distributors obtained the
24 copies. Although it maintains that these copies did not infringe
25 "Adobe's right of reproduction," id., Hoops says nothing about
26 Adobe's right of distribution, to which the first sale doctrine
27 applies.

1 In lieu of addressing these defects, Hoops offers an
2 unpersuasive argument that it has not sold Adobe's copyrighted work
3 but rather sold discs containing copies of that work. This
4 attempted distinction illuminates the flaw in Hoops's theory.
5 Adobe does not allege that Hoops unlawfully transferred ownership
6 of Adobe's copyrighted software. It alleges that Hoops and
7 Kornrumpf sold copies of Adobe's software in violation of Adobe's
8 exclusive distribution right. To avail itself of the first sale
9 doctrine, Hoops must demonstrate that it owned the copies of the
10 Adobe software it resold; it is irrelevant whether Hoops owned the
11 discs on which the copies were stored. A copyright attaches to an
12 original work of authorship, not the particular medium in which it
13 was initially fixed.

14 Hoops appears to argue that Vernor is distinguishable because
15 that case involved a license agreement. However, Hoops's
16 allegations are not sufficient to determine whether Vernor is
17 analogous; as noted above, Hoops offers no insight into the
18 circumstances under which it obtained the copies of Adobe software.

19 Finally, Hoops alleges that Adobe and SIIA misuse Adobe's
20 copyrights because their conduct attempts to hamper competition by
21 eliminating the secondary market of copies of Adobe software.
22 However, because Hoops has not established that it, or any other
23 re-seller, sold copies subject to the first sale doctrine, this
24 allegation is unavailing. It is not a misuse of copyright to
25 dismantle a market of allegedly infringing copies of software.

26 Thus, Hoops fails to allege any facts to suggest Adobe or SIIA
27 engaged in copyright misuse. For this reason and those stated
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1 above, Hoops's copyright misuse claims for declaratory relief are
2 dismissed with leave to amend.

3 II. Claims for Violations of California's Unfair Competition Law

4 The UCL prohibits any "unlawful, unfair or fraudulent business
5 act or practice." Cal. Bus. & Prof. Code § 17200. The UCL
6 incorporates other laws and treats violations of those laws as
7 unlawful business practices independently actionable under state
8 law. Chabner v. United Omaha Life Ins. Co., 225 F.3d 1042, 1048
9 (9th Cir. 2000). Violation of almost any federal, state or local
10 law may serve as the basis for a UCL claim. Saunders v. Superior
11 Court, 27 Cal. App. 4th 832, 838-39 (1994). In addition, a
12 business practice may be "unfair or fraudulent in violation of the
13 UCL even if the practice does not violate any law." Olszewski v.
14 Scripps Health, 30 Cal. 4th 798, 827 (2003).

15 Hoops does not plead clearly under which prong of the UCL its
16 claims arise. However, it does not allege that Adobe or SIIA
17 violated a federal, state or local law or committed fraud. Thus,
18 Hoops's counterclaim appears to arise under the unfair prong of the
19 UCL. In UCL actions involving claims of unfair conduct by a
20 competitor, a plaintiff must plead that "conduct that threatens an
21 incipient violation of an antitrust law, or violates the policy or
22 spirit of one of those laws because its effects are comparable to
23 or the same as a violation of the law, or otherwise significantly
24 threatens or harms competition." Cel-Tech Commun's, Inc. v. L.A.
25 Cellular Telephone Co., 20 Cal. 4th 163, 187 (1999).

26 Although Hoops alleges that Adobe and SIIA are attempting to
27 harm competition by eliminating the resale market, this allegation
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1 is unavailing. As noted above, Hoops has not alleged facts to
2 suggest that Adobe and SIIA are not lawfully enforcing Adobe's
3 copyrights. Lawful enforcement of valid copyrights does not
4 constitute unfair competition.

5 Accordingly, Hoops's UCL claims are dismissed with leave to
6 amend to plead a cognizable violation of the UCL.

7 CONCLUSION

8 For the foregoing reasons, the Court GRANTS Adobe and SIIA's
9 motion to dismiss. (Docket No. 34.) Hoops's request for damages
10 based on its copyright misuse claims is dismissed with prejudice.
11 Hoops's copyright misuse claims for declaratory relief and its UCL
12 claims are dismissed with leave to amend. Hoops must plead facts
13 that justify the exercise of the Court's discretion to hear
14 declaratory relief claims against Adobe and SIIA and that suggest
15 Adobe and SIIA engaged in copyright misuse and violated
16 California's UCL.

17 If it intends to file an amended pleading, Hoops shall do so
18 within fourteen days of the date of this Order. If Hoops does so,
19 Adobe and SIIA shall answer or file a motion to dismiss twenty-one
20 days thereafter. If Adobe and SIIA move to dismiss, Hoops's
21 opposition shall be due fourteen days after the motion is filed.
22 Any reply shall be due seven days after that. The motion will be
23 taken under submission on the papers.

24 IT IS SO ORDERED.

25 Dated: 1/19/2011



CLAUDIA WILKEN

United States District Judge